1.2 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

1.3 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be it's fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Accounting Policies

1.4 Financial instruments (continued)

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Accounting Policies

1.4 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in profit or loss.

Regular way purchases of financial assets are accounted for at settlement date.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.We have used the method of recovery in the current year and non recovery was then used to create a doubtful debt provision hence we did not discount the debtors because of the materiality of the provision.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost.

Accounting Policies

1.4 Financial instruments (continued)

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

Accounting Policies

1.4 Financial instruments (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of water inventories are assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.8 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.9 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.9 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.9 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.10 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.10 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The uMgungundlovu District Municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Accounting Policies

1.11 Revenue from exchange transactions (continued)

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.13 Revenue

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is ammended, prior period comparative amounts are reclassified.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the change in accounting policy in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the change in accounting policy.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the change in accounting policy in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the change in accounting policy.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.19 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.20 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised when municapal valuation is more than carrying amount of the buildings.On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the change in accounting policy.

1.22 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 07/01/2013 to 06/30/2014.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Accounting Policies

1.24 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

2. Inventories

Consumables stores	2 945 710	2 245 112
Water	93 138	-
	3 038 848	**2 245 112**
Inventories recognised as an expense during the year	5 026 667	1 482 527

Inventory is measured at the lower of cost or net realisable value.

3. Receivables from exchange transactions

Deposits	800 566	431 234
Agency Agreements	1 840 440	1 667 638
Trade Debtors	36 816 409	35 387 682
Prepaid expenses	2 993 366	2 568 690
Other debtors	-	193 104
MIG	66 590 951	39 713 756
Clearing account	1 138 517	856 106
	110 180 249	**80 818 210**

Trade and other receivables pledged as security

Trade and other receivables were not pledged as security for any overdraft facilities of the municipality.

4. Consumer debtors

Gross balances		
Water	343 762 933	257 728 481
Less: Allowance for impairment		
Water	(254 175 445)	(214 817 495)
Net balance		
Water	89 587 488	42 910 986
Water		
Current (0 -30 days)	23 614 363	11 488 618
31 - 60 days	8 001 387	12 944 445
61 - 90 days	9 856 895	23 058 982
91 - 120 days	6 229 386	31 970 999
121 - 365 days	6 259 525	4 934 819
> 365 days	289 801 378	173 330 618
Provision	(254 175 446)	(214 817 495)
	89 587 488	**42 910 986**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(214 817 495)	(157 763 185)
Contributions to allowance	(39 357 950)	(57 054 310)
	(254 175 445)	**(214 817 495)**

The provision for bad debts has been calculated based on the individual risk profile of customers, i.e. customer have been categorised as high risk, very high risk, medium risk, low risk, and deceased customers. All government customers have been excluded from the provision from bad debts provision.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8 636	10 038
Bank balances	76 524 301	8 238 542
Short-term deposits	120 000 000	120 000 000
Investments	8 750 000	8 750 000
	205 282 937	**136 998 580**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
FNB BANK-Public Sector Account - 62243484417	-	26 862	723	-	26 862	-
FNB BANK -Salaries Account - 50940092196	2 092 252	552 302	63 076	2 092 252	552 302	63 076
FNB BANK -Projects Account - 62023616462	10 834 502	2 251 517	2 642 499	10 834 502	2 251 517	2 642 499
STANDARD BANK - Call Account - 62215748289	55 705 004	557 546	29 313 740	55 705 004	557 546	29 313 740
FNB BANK - Cheque Account - 62411577193	305 045	112 519	-	305 045	112 519	-
FNB BANK - Main Account - 50940026773	7 588 245	4 737 796	25 277 101	7 587 435	4 737 796	25 277 101
FNB BANK - Cheque Account - 62400041985	64	-	-	64	-	-
ABSA BANK - Fixed Deposit - 2072673843	30 000 000	30 000 000	-	30 000 000	30 000 000	10 000 000
NEDBANK - 3 Months deposit - 03/7165014047/00023	30 000 000	30 000 000	-	30 000 000	30 000 000	20 000 000
STATE BANK OF INDIA- Term Deposit - 32620073030107	5 000 000	5 000 000	-	5 000 000	5 000 000	-
INVESTEC BANK-Fixed Deposit-455213	30 000 000	30 000 000	-	30 000 000	30 000 000	20 000 000
FNB BABK-Fixed Deposit-71101199555	3 750 000	3 750 000	-	3 750 000	3 750 000	3 750 000
STANDARD BANK-Fixed Deposit-358610095-004	30 000 000	30 000 000	-	30 000 000	30 000 000	20 000 000
Total	**205 275 112**	**136 988 542**	**57 297 139**	**205 274 302**	**136 988 542**	**131 046 416**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

6. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 905 000	-	1 905 000	1 905 000	-	1 905 000
Buildings	30 200 059	-	30 200 059	27 400 059	(913 335)	26 486 724
Plant and machinery	7 509 251	(4 105 090)	3 404 161	5 510 014	(3 374 490)	2 135 524
Furniture and fixtures	4 103 856	(2 323 846)	1 780 010	3 726 208	(2 099 024)	1 627 184
Motor vehicles	6 136 708	(5 359 004)	777 704	6 136 708	(5 171 707)	965 001
IT equipment	5 555 148	(3 863 203)	1 691 945	4 843 475	(3 564 609)	1 278 866
Infrastructure	1 696 104 674	(1 189 860 403)	506 244 271	1 637 809 522	(1 151 982 318)	485 827 204
Other property, plant and equipment	6 187 068	(809 975)	5 377 093	4 959 672	(502 974)	4 456 698
Bins and containers	392 440	(80 560)	311 880	392 440	(61 067)	331 373
Work in Progress	242 163 784	-	242 163 784	155 695 406	-	155 695 406
Total	**2 000 257 988**	**(1 206 402 081)**	**793 855 907**	**1 848 378 504**	**(1 167 669 524)**	**680 708 980**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Revaluations	Fair value adjustments	Depreciation	Impairment loss	Total
Land	1 905 000	-	-	-	-	-	1 905 000
Buildings	26 486 724	-	4 626 670	-	(913 335)	-	30 200 059
Plant and machinery	2 135 524	1 994 737	4 500	-	(104 038)	(626 562)	3 404 161
Furniture and fixtures	1 627 184	363 848	13 800	-	(176 304)	(48 518)	1 780 010
Motor vehicles	965 001	-	-	-	(147 297)	(40 000)	777 704
IT equipment	1 278 866	711 673	12 358	-	(247 911)	(63 041)	1 691 945
Infrastructure	485 827 204	53 083 743	5 211 411	16 546 512	(54 414 877)	(9 722)	506 244 271
Other property, plant and equipment	4 456 698	1 227 396	-	-	(307 001)	-	5 377 093
Mobile Offices	331 373	-	-	-	(19 493)	-	311 880
Work in Progress	155 695 406	86 468 378	-	-	-	-	242 163 784
	680 708 980	**143 849 775**	**9 868 739**	**16 546 512**	**(56 330 256)**	**(787 843)**	**793 855 907**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	movements	Depreciation	Impairment loss	Total
Land	6 481 000	-	-	-	(4 576 000)	-	-	1 905 000
Buildings	27 400 059	-	-	-	-	(913 335)	-	26 486 724
Plant and machinery	1 615 827	23 091	-	701 910	-	(205 304)	-	2 135 524
Furniture and fixtures	1 801 817	191 326	-	-	-	(365 959)	-	1 627 184
Motor vehicles	1 091 912	-	(125 000)	(1 911)	-	-	-	965 001
IT equipment	2 022 890	485 926	-	-	-	(1 229 950)	-	1 278 866
Infrastructure	547 999 569	15 917 192	-	-	-	(78 048 302)	(41 255)	485 827 204
Other property, plant and equipment	5 457 682	-	(801 167)	-	-	(199 817)	-	4 456 698
Bins and containers	350 995	-	-	-	-	(19 622)	-	331 373
Work in Progress	98 488 855	61 335 760	-	(4 129 209)	-	-	-	155 695 406
	692 710 606	**77 953 295**	**(926 167)**	**(3 429 210)**	**(4 576 000)**	**(80 982 289)**	**(41 255)**	**680 708 980**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

6. Property, plant and equipment (continued)

Revaluations

The revaluations of buildings was performed by the Msunduzi Municipality (independent valuers) in respect of the Municipal Rates Act of 2004.The effective date for the revaluation is 01 July 2013

The revaluation of Infrustructure assets was performed by NME Engineering (independent valuers).The effective dates for the revaluation is 01 July 2013

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

7. Other financial liabilities

At amortised cost		
DBSA Loan	79 824 812	13 602 095

The Loan from Development Bank South Africa are subject to interest at an average rate of 10% and are repayable over an average period of 20 years

Non-current liabilities		
At amortised cost	6 021 088	9 953 749
Current liabilities		
At amortised cost	73 803 724	3 648 346

8. Payables from exchange transactions

Trade payables	44 011 173	30 817 114
Retention	9 723 108	5 778 327
Accrued leave pay	10 567 927	7 097 885
Accrued bonus	3 799 257	3 119 576
Other accrued expenses	588 206	996 525
	68 689 671	**47 809 427**

Trade Payable Ageing		
0-30 Days	38 749 512	28 968 746
31-60 Days	4 625 267	540 222
61-90 Days	580 786	1 308 746
91-180 Days	1 057 847	-
	45 013 412	**30 817 714**

9. Consumer deposits

Water	4 749 740	4 527 350

The water deposits relates to amounts paid by customers and are refundable as and when the customer closes their water accounts. The municipality does not pay nor accrue any interest on these deposits.

Figures in Rand	2014	2013

10. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Materials recovery Grant	19 553 972	19 553 972
Water Purification Grant	2 244 800	2 244 800
IRO Municipal Excellence	262 678	1 000 000
GIS Grant	1 001 017	276 152
Corridor Development Grant	550 000	550 000
KZN Sports	633 776	633 776
Massification Grant	-	9 098 344
HIV Awareness Grant	-	630 842
Shared deployment	800 000	800 000
Expanded Public Works	1 405 871	793 942
Accredited Councillor Training Programme	23 020	200 000
Rural roads asset management systems	952 181	428 926
Water and Sewer Works	15 235 291	105 417
Water Demand Management Grant	969 333	969 333
PTP Grant	308 817	308 817
Municipal Water Infrastructure Grant	4 027 338	-
Growth & Development Summit	-	121 479
Energy Sector	150 440	150 440
Corridor Development	4 000 000	10 000 000
Camperdown Waste Water works	4 000 095	4 267 693
	56 118 629	**52 133 933**

Movement during the year

Balance at the beginning of the year	52 133 933	42 412 602
Additions during the year	239 185 050	146 032 918
Income recognition during the year	(235 200 354)	(136 311 587)
	56 118 629	**52 133 933**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

11. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Reversed during the year	Total
Post Employment Benefits	16 167 000	-	(4 823 000)	11 344 000
Long service award	9 215 000	4 473 000	-	13 688 000
	25 382 000	**4 473 000**	**(4 823 000)**	**25 032 000**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Post Employment Benefit	3 918 000	12 249 000	16 167 000
Lond service award	-	9 215 000	9 215 000
	3 918 000	**21 464 000**	**25 382 000**

Notes to the Annual Financial Statements

Figures in Rands	2014	2013

11 POST -EMPLOYMENT BENEFITS

11,1 Post-employment medical benefits

The municipality operates on 5 accredited medical aid schemes, namely Bonitas, KeyHealth, LA Health, Samumed and HosMed.

Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, ZAQ Finance Consultants and actuaries, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

	2014		2013	
Discount rate per annum	8.94%		7.25%	
Health care cost inflation rate	8.05%		6.75%	
Net effective discount rate	0.82%		0.47%	
Benchmark inflation (equal to salary inflation)	0%		0%	
Average retirement age	63		63	
Proportion continuing membership at retirement	90%		90%	
Proportion of retiring members who are married	90%		90%	
Mortality during employment	SA 85-90		SA 85-90	
Mortality post-retirement	PA90-1 ultimate		PA90-1 ultimate	
(No explicit assumption was made about additional mortality or health care costs due to AIDS).				
Percentage of in-service members withdrawing before retirement:	Females	Males	Females	Males
Age 20 - 24	24%	16%	24%	16%
Age 25 - 29	18%	12%	18%	12%
Age 30 - 34	15%	10%	15%	10%
Age 35 - 39	10%	8%	10%	8%
Age 40 - 44	6%	6%	6%	6%
Age 45 - 49	4%	4%	4%	4%
Age 50+	3%	3%	3%	3%

	2014	2013
The amounts recognised in the Statement of Financial Position were determined as being the present value of the obligation:	**10 691 000**	**15 737 000**
Movement in the defined benefit obligation is as follows:		
Balance at beginning of the year	15 737 000	9 223 000
Current service cost	1 891 000	588 000
Interest cost	1 131 000	753 000
Benefit payments	(269 000)	(195 000)
Actuarial (gains)/losses	(7 799 000)	5 368 000
Balance at end of year	**10 691 000**	**15 737 000**

Notes to the Annual Financial Statements

Figures in Rands	2014	2013
11,1 Post-employment medical benefits (Continued)		
The amounts recognised in the Statement of Financial Performance were as follows:		
CONTINUED OPERATIONS		
Current service cost	1 891 000	588 000
Interest cost	1 131 000	753 000
Benefit payments	(269 000)	(195 000)
Actuarial (gains)/losses	(7 799 000)	5 368 000
TOTAL: CONTINUED SERVICES	**(5 046 000)**	**6 514 000**
DISCONTINUED OPERATIONS		
Provincial Health Services - Clinics	-	-
TOTAL	**(5 046 000)**	**6 514 000**

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results, will depend on the extent to which actual experience differs from the assumptions made.

The assumption which tends to have the greatest impact on the results is the level of mortality and medical aid inflation.

SENSITIVITY RESULTS

Mortality Rate:
The liability at the Valuation date was recalculated to show the effect of:
(1) A 20% increase and decrease in the assumed level of mortality

Table 1 summarises the results of the sensitivity analysis

	20% Mortality rate	Valuation Assumption	20% Mortality rate
Total Accrued Liability	1 146 2000	10 691 000	10 042 000
Interest Cost	1 036 000	965 000	906 000
Service Cost	576 000	538 000	505 000

Note: Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

Notes to the Annual Financial Statements

Figures in Rands	2014	2013

11,1 Post-employment medical benefits (Continued)

Medical Aid Inflation:

The liability at the Valuation date was recalculated to show the effect of:

(1) A 1% increase and decrease in the medical aid inflation.

Table 2 summarises the results of the sensitivity analysis

	-1% Mortality rate	Valuation Assumption	20% Mortality rate
Total Accrued Liability	10 081 000	10 691000	11 193 000
Interest Cost	909 000	965 000	1 011 000
Service Cost	504 000	538 000	565 000

Note: The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

11.2 Long service awards and retirement gifts

Finance consultants and actuaries, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

	2014	2013
Discount rate per annum	7.96%	7.25%
General Salary Inflation (long term)	7,33%	6.25%
Net effective discount rate	0.59%	0.09%

Examples of mortality rates used were as follows:

	2014	2013
Average retirement age	63 years	63 years
Mortality during employment	SA85-90	SA85-90 Ultimate

Members withdrawn from service:	Females	Males	Females	Males
Age 20- 24	24%	16%	24%	16%
Age 25 - 29	18%	18%	18%	18%
Age 30 - 34	15%	10%	15%	10%
Age 35 - 39	10%	8%	10%	8%
Age 40 - 44	6%	6%	6%	6%
Age 45 - 49	4%	4%	4%	4%
Age 50+	3%	3%	3%	3%

The amounts recognised in the Statement of Financial Position were determined as follows:

	2014	2013
Present value of funded obligations		
Fair value of plan assets		
Liability in the Statement of Financial Position	**13 688 000**	**9 215 000**

Notes to the Annual Financial Statements

Figures in Rands	2014	2013
11.2 Long service awards and retirement gifts (continued)		
Movement in the defined benefit obligation is as follows:		
Balance at beginning of the year	9 215 000	7 961 000
Current service cost	1 093 000	1 614 000
Interest cost	653 000	
Actuarial (Gain)/losses	3 101 000	
Benefit payments	(374 000)	(360 000)
Balance at end of year	**13 688 000**	**9 215 000**
The amounts recognised in the Statement of Financial Performance were as follows:		
CONTINUED OPERATIONS		
Current service cost	1 093 000	1 614 000
Interest cost	653 000	-
Actuarial (Gain)/losses	3 101 000	-
Benefit payments	(374 000)	(360 000)
TOTAL: CONTINUED SERVICES	**4 473 000**	**1 254 000**
DISCONTINUED OPERATIONS		
Provincial Health Services - Clinics	-	-
TOTAL	**4 473 000**	**1 254 000**
In conclusion:		
Statement of Financial Position obligation for:		
Post-employment medical benefits	10 691 000	15 737 000
Long Service Award	13 688 000	9 215 000
Post-employment pension benefits	653 000	430 000
	25 032 000	**24 952 000**
Statement of Financial Performance obligation for:		
Post-employment medical benefits - continued members	(5 046 000)	6 514 000
Post-employment Pension benefits - continued members	223 000	
Long Service Award loss - continued members	4 473 000	1 254 000
	(350 000)	7 768 000
Post-employment medical benefits - discontinued members	-	-
Long Service Award loss - discontinued members	-	-
	(350 000)	**7 768 000**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Vat payable

Vat payable	18 714 775	12 724 063

13. Revaluation reserve

The revaluation reserve arose due to land and buildings recorded at market values.The valuation was perfomed by a professional valuer appointed by Local Municipalities where valued properties are situated.The municipality used valuation roll values to revalue its land and buildings.The valuation roll was implemented on 01 July 2009.

Opening balance	14 195 738	14 195 738
Change during the year	8 011 411	-
	22 207 149	**14 195 738**

14. Service charges

Service charges	8 990	94 526
Sale of water	125 072 081	94 292 996
Sewerage and sanitation charges	7 604 011	23 748 375
	132 685 082	**118 135 897**

The municipality averages water loss to be approximately 55% for 2013/14 and 49% for 2012/13 . The loss is calculated by comparing quantity of water sold to quantity bought. The calcuation was arrived at by comparing water bought to water sold. The increase in sale of water and sewerage charges is as a result of commercial customers transferred from uMngeni water.
Water losses were mainly due to illegal connections and leakages as a result of ageing infrastructure.

15. Other income

Project Income	259 282	220 024
Orio	-	7 267 157
uMsunduzi	-	6 577 490
Sundry Income	2 215 780	984 305
	2 475 062	**15 048 976**

16. Revenue

Service charges	132 685 082	118 135 897
Gains on disposal of assets	-	413 458
Interest received (trading)	19 490 753	12 855 690
Rental income	405 298	288 622
Profit on disposal of assets	-	13 706
Sundry Income	2 475 062	15 048 976
Interest received	10 412 984	7 979 036
Government grants & subsidies	533 093 404	467 412 599
	698 562 583	**622 147 984**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	132 685 082	118 135 897
Interest received (trading)	19 490 753	12 855 690
Rental income	405 298	288 622
Profit on disposal on assets	-	13 706
Sundry Income	2 475 062	15 048 976
Interest received - investment	10 412 984	7 979 036
	165 469 179	**154 321 927**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

16. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	533 093 404	467 412 599

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

17. Employee related costs

Basic	88 847 387	79 284 238
Medical aid - company contributions	1 636 785	12 337 786
UIF	715 149	618 688
WCA	-	1 033 691
SDL	1 298 689	1 136 695
Other payroll levies	33 012	29 158
Leave pay provision charge	4 104 706	(1 485 338)
Group Life Insurance	2 531 217	2 633 885
Defined contribution plans	20 587 505	20 045 325
Travel, motor car, accommodation, subsistence and other allowances	12 209 711	9 939 134
Overtime payments	7 283 733	4 235 953
Long-service awards	6 180 178	10 698 952
Acting allowances	783 422	1 547 148
Housing benefits and allowances	592 100	590 288
Holiday Bonus	7 702 005	6 513 725
Standby Allowance	2 570 884	2 168 829
Telephone Allowance	21 600	22 030
Clothing Allowance	58 370	60 798
Severence Pay	19 439	4
	157 175 892	**151 410 989**

Remuneration of Municipal Manager

Annual Remuneration	1 158 376	1 113 565
Travel Allowance	112 500	90 000
Performance Bonuses	62 040	94 530
Contributions to UIF, Medical and Pension Funds	14 835	-
	1 347 751	**1 298 095**

Remuneration of SEM: Financial Services

Annual Remuneration	511 476	712 952
Travel Allowance	67 599	270 395
Contributions to UIF, Medical and Pension Funds	38 198	116 580
Performance Bonus	87 739	105 152
Leave Pay	-	98 898
	705 012	**1 303 977**

Remuneration of SEM: Corporate Services

Annual Remuneration	894 887	862 456
Travel Allowance	240 000	183 853
Contributions to UIF, Medical and Pension Funds	11 170	-
	1 146 057	**1 046 309**

Remuneration of SEM: Technical Services

Annual Remuneration	674 827	579 964
Travel Allowance	270 395	270 395
Performance Bonuses	51 050	59 563
Contributions to UIF, Medical and Pension Funds	234 104	220 080
Acting Allowance	-	15 793
	1 230 376	**1 145 795**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

17. Employee related costs (continued)

Remuneration of SEM: Community Services

Annual Remuneration	844 482	393 667
Travel Allowance	163 849	63 900
Contributions to UIF, Medical and Pension Funds	101 002	34 889
	1 109 333	**492 456**

18. Remuneration of councillors

Mayor	865 966	823 651
Deputy Mayor	269 380	526 290
Speaker	686 432	647 983
Whip	644 861	608 720
Other Councillors	7 477 702	6 859 362
	9 944 341	**9 466 006**

19. Depreciation and amortisation

Property, plant and equipment	56 330 257	80 988 598

20. Finance costs

Interest paid (DBSA Loan)	2 975 891	1 919 004

21. Debt impairment

Contributions to debt impairment provision	39 357 950	57 054 309
Debts impaired	97 106	318 425
	39 455 056	**57 372 734**

22. Bulk purchases

Water	70 909 979	63 345 618
Sewer purification	425 749	-
	71 335 728	**63 345 618**

23. Contracted services

Fleet Services	55 273 736	42 125 655
Operating Leases	30 864 348	16 814 324
Other Contractors	57 714 842	93 217 379
	143 852 926	**152 157 358**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. General expenses

Advertising	1 379 674	616 743
Auditors remuneration	1 616 219	1 401 170
Bank charges	277 727	215 619
Consulting and professional fees	10 778 008	7 643 659
Consumables	1 444 533	6 235 084
Entertainment	1 222 031	1 484 259
Hiring charges	451 608	488 604
Insurance	699 967	724 785
Conferences and seminars	786 939	480 173
Lease rentals on operating lease	697 883	635 551
Levies	733 557	664 170
Magazines, books and periodicals	407 474	114 097
Medical expenses	138 905	50 088
Motor vehicle expenses	8 778 509	14 140 698
Postage and courier	743 553	582 539
Printing and stationery	1 402 123	1 272 519
Promotions	2 682 359	2 593 922
Protective clothing	648 328	2 731 047
Research and development costs	184 908	4 832
Royalties and license fees	1 412 526	1 472 904
Security (Guarding of municipal property)	7 042 310	6 516 462
Sports and recreation	6 792 735	7 634 325
Staff welfare	299 330	-
Subscriptions and membership fees	3 053 337	1 082 514
Telephone and fax	4 126 104	4 415 092
Training	2 265 329	2 002 365
Travel - local	1 793 944	2 114 861
Electricity	3 728 235	3 280 690
Social Development	3 101 737	2 464 642
Grant Expenditure	7 483 824	8 532 987
Intergrated Public Works Projects	445 065	615 792
Disaster awareness	95 999	168 900
Organisational expense	1 260	22 145
Local Economic Development	853 606	266 000
	77 569 646	**82 669 238**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Government grants and subsidies

Operating grants		
Equitable share	337 605 000	314 311 000
Municipal Water Infrastructure grant	4 722 662	-
FMG	1 250 000	1 250 000
Corridor Development	-	4 900 000
MSIG	897 000	1 000 000
SETA Grant	133 825	584 853
Rural roads management system	1 494 745	1 347 074
Rural transport	-	1 233 772
DBSA	-	590 956
Sports and Recreation	-	699 439
GIS Share Services	275 135	447 478
Intergovernmental Relations	250 777	153 874
Growth and Development	96 450	278 521
Expanded public works	388 071	206 058
Camperdown waste	267 597	-
H.I.V Grant	532 542	85 196
Water Demand Management grant	737 322	-
	348 651 126	327 088 221
Capital grants		
MIG	160 658 195	131 492 794
Massification	17 759 054	8 831 584
Growth and Development	25 029	-
Rural transport	6 000 000	-
	184 442 278	140 324 378
	533 093 404	**467 412 599**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	235 200 354	136 311 587
Unconditional grants received	297 893 050	33 101 012
	533 093 404	**169 412 599**

Materials Recovery Grant

Balance unspent at beginning of year	19 553 972	19 553 972
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	19 553 972	**19 553 972**

Water Purification Grant

Balance unspent at beginning of year	2 244 800	2 244 800
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	2 244 800	**2 244 800**

Municipal Excellence Grant

Balance unspent at beginning of year	1 000 000	1 000 000
Current-year receipts	-	-
Conditions met - transferred to revenue	(737 322)	-

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Government grants and subsidies (continued)

	262 678	**1 000 000**

FMG

Balance unspent at beginning of year	-	-
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

DPSS Grant

Balance unspent at beginning of year	276 152	738 854
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(275 135)	(462 702)
	1 001 017	**276 152**

Corridor Development Grant

Balance unspent at beginning of year	550 000	-
Current-year receipts	-	5 450 000
Conditions met - transferred to revenue	-	(4 900 000)
	550 000	**550 000**

KZN Sports

Balance unspent at beginning of year	633 776	-
Current-year receipts	-	1 333 215
Conditions met - transferred to revenue	-	(699 439)
	633 776	**633 776**

MSIG

Balance unspent at beginning of year	-	-
Current-year receipts	897 000	1 000 000
Conditions met - transferred to revenue	(897 000)	(1 000 000)
	-	-

HIV Awareness Grant

Balance unspent at beginning of year	630 842	-
Current-year receipts	-	716 038
Conditions met - transferred to revenue	(630 842)	(85 196)
	-	**630 842**

Shared Deployment Grant

Balance unspent at beginning of year	800 000	800 000
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	800 000	**800 000**

EPWP Grant

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Government grants and subsidies (continued)

Balance unspent at beginning of year	793 943	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(388 072)	(206 057)
	1 405 871	**793 943**

ACTP Grant

Balance unspent at beginning of year	200 000	200 000
Current-year receipts	-	-
Conditions met - transferred to revenue	(176 980)	-
	23 020	**200 000**

Rural Roads Systems Grant

Balance unspent at beginning of year	428 926	-
Current-year receipts	2 018 000	1 776 000
Conditions met - transferred to revenue	(1 494 745)	(1 347 074)
	952 181	**428 926**

Massification Grant

Balance unspent at beginning of year	9 098 344	-
Current-year receipts	23 896 000	16 657 845
Conditions met - transferred to revenue	(17 759 053)	(7 559 501)
	15 235 291	**9 098 344**

MIG

Balance unspent at beginning of year	(39 713 756)	-
Current-year receipts	133 781 000	104 142 000
Conditions met - transferred to revenue	(160 658 195)	(143 855 756)
	(66 590 951)	**(39 713 756)**

IGR Grant

Balance unspent at beginning of year	105 417	-
Current-year receipts	-	298 822
Conditions met - transferred to revenue	(105 417)	(193 405)
	-	**105 417**

Conditions still to be met - remain liabilities (see note 10).

Provide explanations of conditions still to be met and other relevant information.

Water Demand Management Grant

Balance unspent at beginning of year	969 333	969 333
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	969 333	**969 333**

PTP Grant

Balance unspent at beginning of year	308 817	308 817

Figures in Rand	2014	2013

25. Government grants and subsidies (continued)

Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	308 817	**308 817**

MWIG

Balance unspent at beginning of year	-	-
Current-year receipts	8 750 000	-
Conditions met - transferred to revenue	(4 722 662)	-
	4 027 338	**-**

GDS Grant

Balance unspent at beginning of year	121 479	-
Current-year receipts	-	400 000
Conditions met - transferred to revenue	(121 479)	(278 521)
	-	**121 479**

Energy Sector Grant

Balance unspent at beginning of year	150 440	150 440
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	150 440	**150 440**

New Water Waste

Balance unspent at beginning of year	10 000 000	10 000 000
Current-year receipts	-	-
Conditions met - transferred to revenue	(6 000 000)	-
	4 000 000	**10 000 000**

Camperdown Water Works

Balance unspent at beginning of year	4 267 693	4 267 693
Current-year receipts	-	-
Conditions met - transferred to revenue	(267 598)	-
	4 000 095	**4 267 693**

26. Investment revenue

Interest revenue

Bank	10 412 984	7 979 036

27. Auditors' remuneration

Fees	1 616 219	1 401 170

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

28. Cash generated from operations

Surplus	151 704 869	19 378 376
Adjustments for:		
Depreciation and amortisation	56 330 257	80 988 598
Loss on sale of assets and liabilities	-	512 709
Fair value adjustments	(16 546 512)	-
Impairment loss	787 843	41 255
Debt impairment	39 455 056	57 372 734
Movements in provisions	(350 000)	21 464 000
Prior year error	(260 807)	(1 981 982)
Other non-cash items	-	976 092
Changes in working capital:		
Inventories	(793 736)	(2 245 112)
Receivables from exchange transactions	(29 362 039)	(28 189 365)
Consumer debtors	(86 131 558)	(89 982 069)
Payables from exchange transactions	20 880 244	11 287 214
VAT	-	7 219 465
Unspent conditional grants	3 984 696	9 721 331
Consumer deposits	222 390	221 492
	139 920 703	**86 784 738**

29. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	165 999 248	108 384 931

Contracted for operating commitments		
• Office Rental	3 014 637	640 728
• Equipment Rental	-	71 481
• Security	494 500	7 159 759
• Communication	-	43 995
• Maintenance	122 647 471	2 467 619
• Water Tankering	57 890 925	8 405 712
	184 047 533	**18 789 294**

This committed expenditure relates to plant and equipment and will be financed by available government grant being MIG.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1 119 957	410 586
- in second to fifth year inclusive	1 894 651	230 142
- later than five years	29	-
	3 014 637	**640 728**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years and. No contingent rent is payable.

30. Fruitless and wasteful expenditure

Interest due to late payment of creditors	131 838	291 004
Over payment of leave payouts	40 288	-
	172 126	**291 004**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

31. Irregular expenditure

Opening balance	26 632 770	5 643 110
Add: Irregular Expenditure - current year	-	26 714 665
Less: Amounts condoned	-	(5 643 110)
Less: Amounts recoverable (not condoned)	-	(81 895)
	26 632 770	**26 632 770**

32. Prior period errors and change

Correction of interest charged to councillors outstanding balances amounting to R 87 774 and correction of contingent asset incorrectly raised amounting to R173 047.There was also a correction of R 913 335 for the depreciation of buidings

The correction of the error(s) results in adjustments as follows:

Correction of Errors - Statement of financial position

Property, plant and equipment	(913 335)	-
Post Employment benefits	-	5 783 000
Sundry Debtors	260 821	-
Retained Earnings	(260 821)	(654 194)
Correction of error statements of financial performance	-	-
Depreciation	913 335	-
	-	5 128 806

33. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

The municipality recorded deviations totalling to R 19 928 726, in the last financial year and R 24 171 366 during the current financial year, that was ratified by Full Council at the respective meetings held during the financial year ended 30 June 2014.

34. Impairment of assets

Impairments

Property, plant and equipment	787 843	41 255

35. Change in estimate

Property, plant and equipment

The useful lives of movable property, plant and equipment was estimated in 2013 to be between 5 to 20 years. In the current period management have revised these estimates to be between 5 to 25 years. The effect of this revision has decreased the depreciation charges for the current period by a total of R 983 741

Infrustructure Assets

The useful life of infrustructure assets was estimated in 2013 to be 55 years. In the current period management have revised their estimate to be between 10 to 100 years. The effect of this revision has decreased the depreciation for the current period by R 236 330 425

Schedule of external loans as at 30 June 2014

	Loan Number	Redeemable	Balance at 01 July 2013 Rand	Redeemed during the period Rand	Balance at June 30, 2014 Rand
Development Bank of South Africa					
10%	10394	2016/03/31	31 080	9 368	21 712
10%	10180	2016/03/31	1 768 049	532 895	1 235 154
10%	10392	2015/09/30	160 528	59 556	100 972
10%	10158	2016/03/31	2 366 037	595 788	1 770 249
10%	10395	2017/03/31	787 765	169 139	618 626
11%	13851	2018/09/30	4 233 831	581 874	3 651 957
14.5%	12358	2015/12/31	82 317	40 025	42 292
14.5%	12359	2015/12/31	64 463	37 944	26 519
3	12360	2017/12/31	30 987	8 788	22 199
15.6%	12361	2012/12/31	-	-	-
16.32%	12363	2011/12/31	-	-	-
8%	12698	2014/06/30	14 963	9 777	5 186
8.5%	12699	2014/06/30	15 984	7 659	8 325
10%	12700	2015/0630	13 918	5 163	8 755
8,25%	12007528	2014/07/31	-	(70 000 000)	70 000 000
10%	9370	2014/09/30	627 103	407 801	219 302
10%	10181	2015/03/31	63 401	30 202	33 199
10%	10155	2015/03/31	1 156 255	549 945	606 310
10%	10157	2015/03/31	417 452	198 551	218 901
10%	10434	2016/03/31	1 768 050	532 896	1 235 154
			13 602 183	**(66 222 629)**	**79 824 812**
Total external loans			**13 602 183**	**(66 222 629)**	**79 824 812**

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Appendix E(1)

	Current year 2014 Act. Bal. Rand	Current year 2014 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Service charges	132 685 082	92 521 000	40 164 082	43,4	This was as a result of the meter audit and some grants received were not spent during the year
	-	-	-	-	
Rental income	405 298	-	405 298	-	There was an increase in demand of short term parking.
Government Grants	533 093 404	497 864 000	35 229 404	7,1	
Other income	12 888 046	39 610 000	(26 721 954)	(67,5)	This is inline with the improvement of collection of revenue policy
Interest received	19 490 753	12 000 000	7 490 753	62,4	More Investments and Cash at bank in financial year
	698 562 583	641 995 000	56 567 583	8,8	
Expenses					
Personnel	(157 175 893)	(149 697 000)	(7 478 893)	5,0	
Remuneration of councillors	(9 944 341)	(13 300 000)	3 355 659	(25,2)	Outcome from the government gazzet
Administration	(666 053)	-	(666 053)	-	
Depreciation	(56 330 257)	(58 725 000)	2 394 743	(4,1)	
Impairments	(787 843)	-	(787 843)	-	Movable assets impaired
Finance costs	(2 975 891)	(2 000 000)	(975 891)	48,8	Changes in JBAR rates
Debt impairment	(39 455 056)	(30 929 000)	(8 526 056)	27,6	Additional customers as a result of meter audit verification exercise and taking into account the Transunion ITC risk profile
Repairs and maintenance - General	(3 310 593)	-	(3 310 593)	-	Increased due to ageing infrastructure
Bulk purchases	(71 335 729)	(65 300 000)	(6 035 729)	9,2	Increase in number of customers - uMgeni Water
General Expenses	(245 493 000)	(221 422 572)	(24 070 428)	10,9	Increase from Contracted Services. More maintenance costs from Waste Water Works which experience increased number of spilages during the year and additional water tankering cost
General Expenses	24 070 431	-	24 070 431	-	
	(563 404 225)	(541 373 572)	(22 030 653)	4,1	
Other revenue and costs					
Fair value adjustments	16 546 512	-	16 546 512	-	Fair value adjustment on Infrustructure assets
	16 546 512	-	16 546 512	-	
Net surplus/ (deficit) for the year	151 704 870	100 621 428	51 083 442	50,8	

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Appendix F - Cash and Cash Equivalents

June 30, 2014

Bank Balances		**Current Year 2014 - Rand**	**Prior Year 2013 - Rand**
FNB Main Account	50940026773	7 588 245.00	4 737 795.98
FNB Salaries Account	50940092196	2 092 252.00	552 302.49
FNB WSA Projects	62023616462	10 834 502.00	2 251 517.08
FNB NSTD Call Account	62215748289	55 705 004.00	557 545.68
FNB Public Sector Cheque Account	62243484417	-	26 862.37
FNB Mandela Race Account	62411577193	305 045.00	112 519.32
Petty Cah		6 186.00	7 587.50
Cashier Float		2 450.00	2 450.00
FNB UMDM DBSA Account	62400041985	64.00	
		76 533 748.00	**8 248 580.42**
Short Term Deposits			
ABSA	2070530459	30 000 000.00	10 000 000.00
STD Bank	358610095-002	30 000 000.00	20 000 000.00
Investec	50003728655	30 000 000.00	20 000 000.00
NedBank	196000028	30 000 000.00	20 000 000.00
FNB Investments	71101199555	3 750 000.00	3 750 000.00
State Bank of India		5 000 000.00	0.00
		128 750 000.00	**73 750 000.00**
		205 283 748.00	**81 998 580.42**

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Appendix G - GRANTS & SUBSIDIES

June 30, 2014

NAME OF GRANTS	Name of Organ of state/ Municipality	Amount Received	Expenditure @ 30 June 2013 - Rand	Balance @ 30 June 2013 - Rand
Corridor Development Grant	CoGTA	550 000.00	0.00	550 000.00
Water Purification Grant	CoGTA	2 244 800.00	0.00	2 244 800.00
Massification Grant	CoGTA	32 994 344.42	17 759 053.65	15 235 290.77
Camperdown Waste Water Works	CoGTA	4 267 692.55	267 597.10	4 000 095.45
New Waste Water Works & Bulk Sewer Line	CoGTA	10 000 000.00	6 000 000.00	4 000 000.00
Energy Sector	CoGTA	150 439.76	0.00	150 439.76
Intergovernmental Relations Grant	CoGTA	105 416.79	105 416.79	0.00
Water Demand Management Grant	DBSA	969 333.00	0.00	969 333.00
MSIG	National Treasury	1 250 000.00	1 250 000.00	0.00
FMG	National Treasury	897 000.00	897 000.00	0.00
KZN Sports	Department of Sports	633 775.88	0.00	633 775.88
PTP Grant	CoGTA	308 816.64	0.00	308 816.64
DPSS	CoGTA	1 276 151.91	275 134.93	1 001 016.98
HIV Awareness Grant	CoGTA	630 841.73	630 841.73	0.00
Materials Recovery Grant	CoGTA	19 553 971.77	0.00	19 553 971.77
IRO Municipal Excellence Grant	CoGTA	1 000 000.00	737 321.53	262 678.47
Growth & Development Summit	CoGTA	121 478.62	121 478.62	0.00
Shared Deployment Grant	CoGTA	800 000.00	0.00	800 000.00
Accredited Councillor Training Programme	CoGTA	200 000.00	176 979.92	23 020.08
EPWP Grant	Public Works	1 793 942.34	388 071.45	1 405 870.89
Rural Roads Asset Management Systems Grant	Department of Transport	2 446 925.55	1 494 745.00	952 180.55
Municipal Water Infrastructure Grant	National Treasury	8 750 000.00	4 722 662.25	4 027 337.75
Balance		**90 944 930.96**	**34 826 302.97**	**56 118 627.99**
MIG	National Treasury	133 781 000.00	200 371 950.97	-66 590 950.97
Balance		**133 781 000.00**	**200 371 950.97**	**-66 590 950.97**

uMGUNGUNDLOVU

UMASIPALA WESIFUNDA

DISTRICT MUNICIPALITY

DISTRIK MUNISIPALITEIT

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2014

General Information

Executive Committee	
Mayor	Y Bhamjee (ANC)
Deputy Mayor	T R Zungu (ANC)
	Other Councillors
	R.P Ashe (DA)
	F N Mbatha (ANC)
	S E Mkhize (ANC)
	B A Mchunu(ANC)
	E Z Ntombela(ANC)
	B E Zuma(IFP)
	J S Majola(DA)
PART TIME COUNCILLORS	
	M S Bond (DA)
	N V Duze (ANC)
	M E Madlala (IFP)
	P W Moon (ANC)
	S Makhanya (ANC)
	L Mchunu (ANC)
	N Msimang(ANC)
	V M Mncwabe (IFP)
	S A Mkhize(ANC)
	D A Ndlela (ANC)
	M D Ndlovu (DA)
	P Ngidi (ANC)
	B E Zuma (IFP)
	B I Mncwabe (NFP)
	STJ Ndlovu(ANC)
	M Ngcobo (ANC)
	M A Tarr(ANC)
	P Jaca (ANC)
	B Shozi(ANC)
	G S Maseko(ANC)
	S M Mbatha-Ntuli(ANC)
	Shabalala J (ANC)
	C D Gwala (ANC)
	P Moonsamy (ANC)
	M Maphumulo (ANC)
	T A Gwala (ANC)
	Nhlabathi (DA)
	M J Grueneberg (DA)
	N Maphumulo (NFP)
	C Bradely (DA)
	L Skhakhane (DA)
	D Buthelezi (ANC)
	G Dladla (ANC)
	NJ Zungu (ANC)
Grading of local authority	Grade 5
WHIP	S C Gabela (ANC)

General Information

SPEAKER	E M Dladla (ANC)
MANAGEMENT	Municipal Manager- T L S Khuzwayo Acting Executive Manager - Financial Services - N Mchunu (Appointed 16 October 2013) Executive Manager- Financial Services- B Ndlovu (Resigned 30 September 2013) Executive Manager - Corporate Services - M Mathe Executive Manager - Technical Services - E B Mbambo Executive Manager - Community Services - RM Baloyi
Registered office	242 Langalibalele Street (Longmarket) Pietermaritzburg 3201
Postal address	P O Box 3235 Pietermaritzburg 3200
Bankers	First National Bank
Auditors	Auditor General
Website	www.umdm.gov.za
Other Information	Telephone: 033 897 6700 Fax : 033 342 5502

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The reports and statements set out below comprise the annual financial statements presented to the council:

Index

Abbreviations

ANC	African National Congress
DA	Democratic Alliance
DBSA	Development Bank of South Africa
GEPF	Government Employee Pension Fund
GRAP	Generally Recognised Accounting Practice
HOD	Head of Department
IAS	International Accounting Standards
IFP	Inkatha Freedom Party
IMFO	Institute of Municipal Finance officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SALGA	South African Local Government Association
NFP	National Freedom
NJMP	Natal Joint Municipal Pension
PPE	Property Plant and Equipment
SA GAAP	South African Statements of Generally Accepted Accounting Practice
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Auditor General is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by Auditor General and his report is presented to the speaker of the council upon completion of the audit.

The annual financial statements set out on pages 6 to 48, which have been prepared on the going concern basis, were approved by the accounting officer on 28 August 2014 and were signed on its behalf by:

Accounting Officer
T L S Khuzwayo

Accounting Officer's Report

Liquidity ratio 1.65:1 (1.8:1)
The Municipality has enough short term assets to finance short term liabilities.
Solvency ratio 4.71 (6.0)
Assets are almost 5 times the liabilities, the Municipality will be able to meet all its short and long term obligations.
Cash ratio 0.82% (0.94%)
There is sufficient cash to pay short term liabilities.

1. Going concern

We draw attention to the fact that at 30 June 2014 , the municipality had an accumulated a surplus of R 930 804 591 (R774 220 612) at 30 June 2013 .

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality continues to secure funding for its ongoing operations

2. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
ASSETS			
Current Assets			
Inventories	2	3 038 848	2 245 112
Receivables from exchange transactions	3	110 180 249	80 818 210
Consumer debtors	4	89 587 488	42 910 986
Cash and cash equivalents	5	205 282 937	136 998 580
		408 089 522	**262 972 888**
Non-Current Assets			
Property, plant and equipment	6	793 855 907	680 708 980
TOTAL ASSETS		**1 201 945 429**	**943 681 868**
LIABILITIES			
Current Liabilities			
Long-term portion of Long term liabilities	7	73 803 724	3 648 346
Payables from exchange transactions	8	68 689 671	47 809 427
Consumer deposits	9	4 749 740	4 527 350
Unspent conditional grants	10	56 118 629	52 133 933
Provisions	11	25 032 000	25 382 000
Vat payable	12	18 714 775	12 724 063
		247 108 539	**146 225 119**
Non-Current Liabilities			
Long-term portion of Long term liabilities	7	6 021 088	9 953 749
TOTAL LIABILITIES		**253 129 627**	**156 178 868**
NET ASSETS		**948 815 802**	**787 503 000**
Reserves			
Revaluation reserve	13	24 064 478	14 195 738
Accumulated surplus		924 751 324	773 307 276
TOTAL NET ASSETS		**948 815 802**	**787 503 014**

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Service charges	14	132 685 082	118 135 897
Interest received from customer late payments		19 490 753	12 855 690
Rental income		405 298	288 622
Profit on disposal assets		-	13 706
Other income	15	2 475 062	15 048 976
Interest received	26	10 412 984	7 979 036
Gains on disposal of assets		-	413 458
Total revenue from exchange transactions		**165 469 179**	**154 735 385**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies		533 093 404	467 412 599
Total revenue	16	**698 562 583**	**622 147 984**
Expenditure			
Administration		(666 053)	(492 076)
Bulk purchases	22	(71 335 728)	(63 345 618)
Contracted services	23	(143 852 926)	(152 157 358)
Debt impairment	21	(39 455 056)	(57 372 734)
Depreciation and amortisation	19	(56 330 257)	(80 988 598)
Finance costs	20	(2 975 891)	(1 919 004)
General Expenses	24	(77 569 646)	(82 669 238)
Impairment loss	34	(787 843)	(41 255)
Loss on disposal of assets		-	(926 167)
Personnel	17	(157 175 892)	(151 410 989)
Remuneration of councillors	18	(9 944 341)	(9 466 066)
Repairs and maintenance		(3 310 593)	(1 980 505)
Total expenditure		**(563 404 226)**	**(602 769 608)**
Operating surplus		**135 158 357**	**19 378 376**
Fair value adjustments		16 546 512	-
Surplus for the year		**151 704 869**	**19 378 376**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2012	**18 771 738**	**759 057 679**	**777 829 417**
Changes in net assets			
Prior year errors(refer to note 32)	(4 576 000)	(5 128 779)	(9 704 779)
Net income (losses) recognised directly in net assets	(4 576 000)	(5 128 779)	(9 704 779)
Surplus for the year	-	19 378 376	19 378 376
Total recognised income and expenses for the year	(4 576 000)	14 249 597	9 673 597
Total changes	(4 576 000)	14 249 597	9 673 597
Balance at 01 July 2013	**14 195 738**	**774 220 612**	**788 416 350**
Changes in net assets			
Revaluations of Infrustructure	5 211 411	-	5 211 411
Prior period errors(refer to note 32)	-	(1 174 157)	(1 174 157)
Revaluation of Buildings	4 626 671	-	4 626 671
Revaluation of IT Equipment	12 358	-	12 358
Revaluation of Furniture and Fittings	13 800	-	13 800
Revaluation of Plant and Machinery	4 500	-	4 500
Net income (losses) recognised directly in net assets	9 868 740	(1 174 157)	8 694 583
Surplus for the year	-	151 704 869	151 704 869
Total recognised income and expenses for the year	9 868 740	150 530 712	160 399 452
Total changes	9 868 740	150 530 712	160 399 452
Balance at 30 June 2014	**24 064 478**	**924 751 324**	**948 815 802**

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Sale of goods and services		15 917 498	27 205 119
Grants		533 093 404	467 412 599
Interest income		10 412 984	20 834 726
Other receipts		-	14 499 027
		559 423 886	529 951 471
Payments			
Employee costs		(167 120 233)	(160 877 055)
Suppliers		(27 106 226)	(61 515 734)
Finance costs		(2 975 891)	(1 919 004)
Other payments		(222 300 833)	(218 854 940)
		(419 503 183)	(443 166 733)
Net cash flows from operating activities	28	**139 920 703**	**86 784 738**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(143 849 775)	(77 953 295)
Proceeds from sale of property, plant and equipment	6	-	413 458
Other cash item		(16 546 511)	-
Net cash flows from investing activities		**(160 396 286)**	**(77 539 837)**
Cash flows from financing activities			
Proceeds from long-term portion of long term liabilities		70 000 000	-
Repayment of long-term portion of long term liabilities		12 769 229	(3 407 151)
Movement in VAT payable	12	5 990 712	-
Net cash flows from financing activities		**88 759 941**	**(3 407 151)**
Net increase/(decrease) in cash and cash equivalents		**68 284 358**	**5 837 750**
Cash and cash equivalents at the beginning of the year		136 998 580	131 160 831
Cash and cash equivalents at the end of the year	5	**205 282 938**	**136 998 581**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference/Reasons
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	100 153 000	(7 632 000)	**92 521 000**	132 685 082	**40 164 082**	Appendix E
Interest received	12 000 000	-	**12 000 000**	19 490 753	**7 490 753**	Appendix E
Rental income	-	-	-	405 298	**405 298**	Appendix E
Other income	22 057 000	1 210 000	**23 267 000**	2 475 062	**(20 791 938)**	Appendix E
Interest received from customers	-	16 343 000	**16 343 000**	10 412 984	**(5 930 016)**	
Total revenue from exchange transactions	**134 210 000**	**9 921 000**	**144 131 000**	**165 469 179**	**21 338 179**	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants & subsidies	461 334 000	36 530 000	**497 864 000**	533 093 404	**35 229 404**	Appendix E
Total revenue	**595 544 000**	**46 451 000**	**641 995 000**	**698 562 583**	**56 567 583**	
Expenditure						
Personnel	(149 697 000)	-	**(149 697 000)**	(157 175 892)	**(7 478 892)**	Appendix E
Remuneration of councillors	(15 579 000)	2 279 000	**(13 300 000)**	(9 944 341)	**3 355 659**	Appendix E
Administration	-	-	-	(666 053)	**(666 053)**	Appendix E
Depreciation and amortisation	(58 725 000)	-	**(58 725 000)**	(56 330 257)	**2 394 743**	Appendix E
Impairment loss/ Reversal of impairments	-	-	-	(787 843)	**(787 843)**	Appendix E
Finance costs	(2 000 000)	-	**(2 000 000)**	(2 975 891)	**(975 891)**	Appendix E
Debt impairment	(30 929 000)	-	**(30 929 000)**	(39 455 056)	**(8 526 056)**	AppendixE
Repairs and maintenance	-	-	-	(3 310 593)	**(3 310 593)**	Appendix E
Bulk purchases	(61 800 000)	(3 500 000)	**(65 300 000)**	(71 335 728)	**(6 035 728)**	Appendix E
Contracted Services and materials	(67 084 000)	(16 212 000)	**(83 296 000)**	(143 852 926)	**(60 556 926)**	Appendix E
Grants and subsidies paid	(9 232 000)	-	**(9 232 000)**	-	**9 232 000**	Appendix E
General Expenses	(148 856 000)	(4 109 000)	**(152 965 000)**	(77 569 646)	**75 395 354**	Appendix E
Total expenditure	**(543 902 000)**	**(21 542 000)**	**(565 444 000)**	**(563 404 226)**	**2 039 774**	
Operating surplus	**51 642 000**	**24 909 000**	**76 551 000**	**135 158 357**	**58 607 357**	
Fair value adjustments	-	-	-	16 546 512	**16 546 512**	Appendix E
Surplus before taxation	**51 642 000**	**24 909 000**	**76 551 000**	**151 704 869**	**75 153 869**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**51 642 000**	**24 909 000**	**76 551 000**	**151 704 869**	**75 153 869**	

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Service charges	100 153 212	(100 162 926)	(9 714)	-		(9 714)	132 685 082		132 694 796	365 916)%	132 %
Investment revenue	9 999 996	(10 002 008)	(2 012)	-		(2 012)	10 412 984		10 414 996	517 544)%	104 %
Transfers recognised - operational	484 845 090	(484 884 818)	(39 728)	-		(39 728)	348 651 126		348 690 854	877 595)%	72 %
Other own revenue	14 641 306	(14 643 696)	(2 390)	-		(2 390)	38 917 625		38 920 015	528 353)%	266 %
Total revenue (excluding capital transfers and contributions)	**609 639 604**	**(609 693 448)**	**(53 844)**	**-**		**(53 844)**	**530 666 817**		**530 720 661**	**985 564)%**	**87 %**
Employee costs	(150 867 504)	150 510 032	(357 472)	-	-	(357 472)	(157 175 892)	-	(156 818 420)	43 969 %	104 %
Remuneration of councillors	(15 828 636)	15 815 086	(13 550)	-	-	(13 550)	(9 944 341)	-	(9 930 791)	73 390 %	63 %
Debt impairment	(30 928 728)	30 928 697	(31)			(31)	(39 455 056)	-	(39 455 025)	274 374 %	128 %
Depreciation and asset impairment	(58 724 952)	58 724 893	(59)			(59)	(57 118 100)	-	(57 118 041)	810 339 %	97 %
Finance charges	(150 000)	149 850	(150)	-	-	(150)	(2 975 891)	-	(2 975 741)	983 927 %	1 984 %
Materials and bulk purchases	(62 900 004)	62 898 839	(1 165)	-	-	(1 165)	(71 335 728)	-	(71 334 563)	123 238 %	113 %
Other expenditure	(222 501 456)	222 335 780	(165 676)	-	-	(165 676)	(225 399 218)	-	(225 233 542)	136 048 %	101 %
Total expenditure	**(541 901 280)**	**541 363 177**	**(538 103)**	**-**	**-**	**(538 103)**	**(563 404 226)**	**-**	**(562 866 123)**	**104 702 %**	**104 %**
Surplus/(Deficit)	**67 738 324**	**(68 330 271)**	**(591 947)**	**-**		**(591 947)**	**(32 737 409)**		**(32 145 462)**	**5 530 %**	**(48)%**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	13 491 864	(13 492 227)	(363)	-		(363)	184 442 278		184 442 641	810 545)%	1 367 %
Surplus (Deficit) after capital transfers and contributions	**81 230 188**	**(81 822 498)**	**(592 310)**	**-**		**(592 310)**	**151 704 869**		**152 297 179**	**(25 612)%**	**187 %**
Surplus/(Deficit) for the year	**81 230 188**	**(81 822 498)**	**(592 310)**	**-**		**(592 310)**	**151 704 869**		**152 297 179**	**(25 612)%**	**187 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations,guidelines and directives issued by the Accounting Standard Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	Fair Value (30 Years)
Plant and machinery	10 to 20 Years
Furniture and fixtures	10 to 15 Years
Motor vehicles	10 to 15 Years
IT equipment	5 to 15 Years
Computer software	5 to 15 Years
Infrastructure	
• Water	10 to 100 Years
• Sewerage	10 to 100 Years
Capital work in progress	Not depreciated (until Completed)
Fire Engines	15 to 20 Years
Mobile Offices	15 to 20 Years